

Services and Capabilities

Financial Services Transfer Pricing



Our team of experts offers an unmatched combination of economic credentials, industry expertise, and testifying experience.

Overview

The financial services sector continues to evolve and is facing a number of challenges from increasing pricing pressures, new business structures, and burgeoning compliance requirements. International taxation is one area where legislation and its enforcement have created increasing complexities for multinational enterprises and tax authorities alike. NERA's transfer pricing professionals assist clients in navigating global regulations by providing independent and defensible economic analyses to define, substantiate, and review transfer pricing policies and practices.

For over half a century, NERA experts have been central to client success in some of the world's highest-profile cases related to litigation, regulation, and business challenges. Our Financial Services Transfer Pricing experts help clients minimize tax risks resulting from transfer prices by aligning the administrative business model with the operational model. NERA economists use advanced analytical techniques to perform differentiating analyses that help financial services firms in determining arm's length pricing for their intra-group transactions. These analyses take into account the unique characteristics of regulatory environments in which many of these firms operate, as well as competitive features of the markets, using relevant data sources in the industry. NERA's capabilities span all areas of transfer pricing for financial services firms, including analyses of financing-related transactions and guarantee fees, structuring of service flows and cost allocation arrangements, asset and equity-related valuations, and capital structure analyses.

NERA's Financial Services Transfer Pricing Focus Area



NERA combines the largest in-house team of economists in the economic consulting world with an extensive network of some of the leading academic and industry experts in their fields. Our Financial Services Transfer Pricing experts are recognized as thought leaders in the financial services industry, including investment and wealth management, insurance, banking and capital markets, private equity, and real estate. Our expert economists have substantial senior-level experience and backgrounds in academia, the financial services industry, and public policy. Our hands-on approach to transfer pricing enables us to develop more rigorous, higher-quality analyses, and to cooperate more effectively with our clients.

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Capabilities

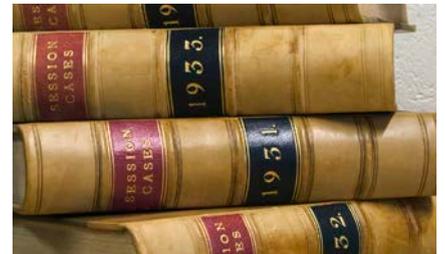
NERA experts' hands-on experience and deep understanding of how markets work span the range of industries and capabilities that are critical to our clients' success. We are grounded in a set of core principles that have always guided our efforts: focus, independence, defensibility, and clarity. In the area of financial services transfer pricing, our capabilities include:

APA, Litigation, and Controversy Support

NERA's conflict resolution capabilities build on our staff's established reputation as expert witnesses and our ability to apply sound, creative economic theory in the resolution of tax disputes. We have substantial experience providing economic advice through partnerships with leading law, tax, and audit firms in tax planning matters, as well as litigation and controversy support. We have substantial practical experience in developing Advance Pricing Agreement (APA) methodologies and in assisting clients in negotiating successfully with the relevant tax authorities. We also maintain independence from law firms, and we use sound economic principles to guide our analyses. This standard of independent advice has strengthened our reputation with tax authorities and multinational enterprises.

Transfer Pricing Strategy and System Design

The financial services sector has been subject to various regulatory changes in recent years. These changes resulted in many financial firms having to reconsider their business model and structures. NERA has extensive experience designing transfer pricing systems that facilitate the successful implementation of new business models and satisfy the arm's length principle. Our analyses involve assessing key entrepreneurial risk taking functions, their contribution to value creation, and how responsibilities are dispersed through the organization.





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Transfer Pricing System Implementation

Our analyses help clients in designing a transfer pricing system that captures the dynamics of a company's business model and, at the same time, satisfies the arm's length principle. Yet, a transfer pricing design is only as good as its implementation.

Successful implementation depends on detailed system design that provides solutions to the multitude of practical issues that need to be addressed when deploying a new transfer pricing system. It also requires continuous maintenance to ensure that the system is aligned with the evolution of the organization, and with internal and external stakeholders. NERA has extensive experience with regards to designing and implementing transfer pricing systems of multinational enterprises.

Valuation Studies

NERA assists clients in establishing fair and accurate valuations of businesses and assets associated with strategic needs, business reorganizations, litigation, tax planning, or mergers and acquisitions. Our work spans all areas of valuation, including business valuation, intangible asset valuation, financial asset valuation, and other assets and investments valuation.

Financial Transactions Pricing

The global financial crisis has led to significant pressures regarding funding sources for companies. Determining arm's length pricing for financial transactions has become a challenge for taxpayers and transfer pricing practitioners alike. Furthermore, from a transfer pricing perspective, changing regulation and increased scrutiny by tax authorities has brought considerations of the arm's length nature of financial transactions to the forefront. NERA's work spans all areas of intercompany finance, including pricing for loans and guarantees, structured finance and leasing, thin capitalization analyses, and other treasury services pricing. Tax authorities have accepted our approaches as part of APAs worldwide and NERA has provided extensive expert witness support in controversy cases related to financial transactions pricing.



Testing of Arm's Length Conditions and Documentation

Transfer pricing guidelines and local tax legislation require multinational enterprises to evaluate and document arm's length pricing for their intercompany transactions. NERA provides support to establish the arm's length basis for pricing controlled transactions by reference to uncontrolled transactions or through other OECD-compliant approaches. In this context, studies are performed taking into account any provision of ancillary services, contribution to intangible assets, and contribution to the value creation process. NERA also provides clients with the necessary internal and external transfer pricing communication tools such as contemporaneous transfer pricing documentation for tax authorities, internal communications to corporate stakeholders (e.g., executive suite and corporate boards), and documentation for external auditors, investors, and workers' councils.





Case and Project Profiles

NERA's experts share a passion for finding the right answer. The following case profiles illustrate the breadth of our experience in the area of Financial Services Transfer Pricing.

Private Bank Transfer Pricing Policy Assessment

NERA was retained by a leading private banking group to assess its transfer pricing policy applied to its main investment management business segments. This evaluation was performed for the purpose of redefining the group's transfer pricing policy. As part of this study, NERA performed a full value chain analysis, including functions such as product design, distribution and promotion, portfolio management, research, trade execution, middle office, and back office services. In addition, a comprehensive mapping and valuations of the group's intangibles were completed as part of this process.

Insurance Company Financing Transaction Pricing

NERA was retained by a leading insurer subject to a tax audit to provide independent advice regarding the arm's length nature of multiple intercompany financing transactions, including the pricing of related party loans. In addition, NERA was also asked to evaluate the economic incentives for the choice of intercompany debt, considering the regulatory requirements regarding solvency qualification of the type of debt issued. The analyses involved an in-depth review of the terms associated with the transactions, the profile of the borrower, and the risks assumed by the lenders, as well as comprehensive yield analyses, including adjustments for specific features of the transaction (e.g., maturity, repayment features). NERA also completed a market study considering comparable insurance firms and debt structures to evaluate the appropriateness of the type of debt issued.

Global Hedge Fund Manager

A global hedge fund manager retained NERA to determine the fair market value of the company's equity, for a valuation in relation to a pari passu participation of new shareholders. NERA's analysis included both a valuation and a transfer pricing analysis, ensuring that the equity valuation was based on arm's length transfer prices between the investment management company and group members. NERA developed a closed-form option valuation model that included assumptions about fund performance and volatility, the rate at which investors withdrew assets from a fund, management and performance fees, and the threshold at which the investment management company would liquidate the fund.

Financial Sector Tax Litigation

NERA has been retained in several large financial sector tax litigation cases to provide independent economic analysis and valuation of corporate guarantees provided as part of complex cross-border financing structures. These cases involved guarantees provided by parent organizations to special purpose vehicles. To support the valuations and provide robust and defensible estimates of arm's length remuneration, NERA performed detailed reviews of the transactions and the related parties involved, credit rating analyses, and net risk exposure estimations.



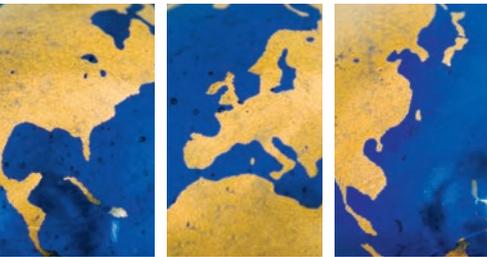
Banking Business Valuation

NERA was retained by a leading European banking group to value a bank branch in the context of a group restructuring. As part of this valuation analysis, NERA assessed the current transfer pricing policy applied by the group and then used both the discounted cash flow and multiples valuation methods to determine the price at which the branch could be transferred.

In-house Insurance Business

NERA was retained to perform the pricing of inter-company commission rates remunerating the distribution activities of a large in-house insurance business. For this study, NERA conducted benchmarking analyses for a number of European countries. Considering functional, asset, and risk profiles and the value contribution of the distribution entities, several adjustments were performed to accommodate for differences between the tested transactions and the benchmarks relied upon.

One thing that taxpayers and authorities agree on is the fact that sound economic analysis is required to establish arm's length pricing.

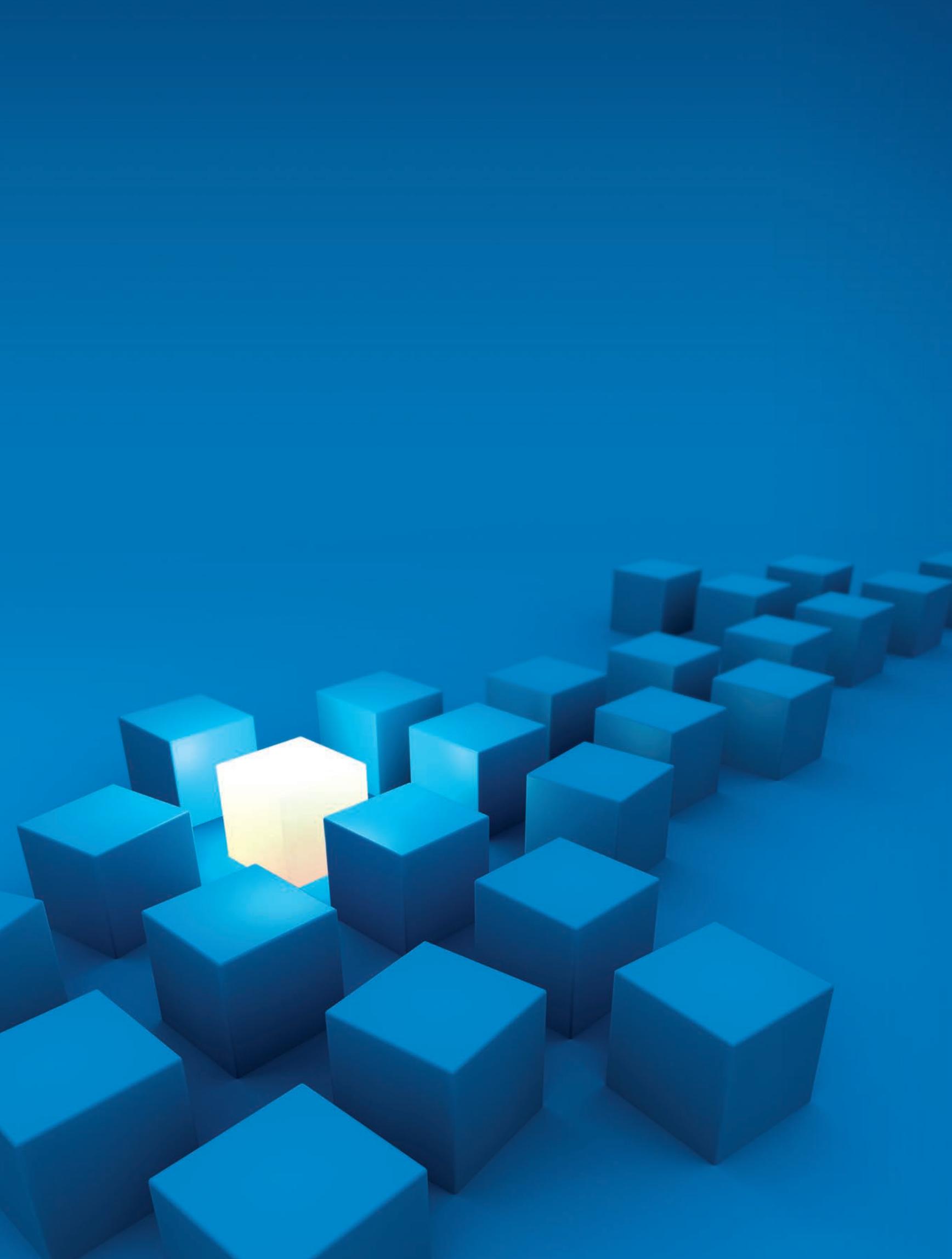


About NERA

NERA Economic Consulting (www.nera.com) is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges. For over half a century, NERA's economists have been creating strategies, studies, reports, expert testimony, and policy recommendations for government authorities and the world's leading law firms and corporations. We bring academic rigor, objectivity, and real world industry experience to bear on issues arising from competition, regulation, public policy, strategy, finance, and litigation.

NERA's clients value our ability to apply and communicate state-of-the-art approaches clearly and convincingly, our commitment to deliver unbiased findings, and our reputation for quality and independence. Our clients rely on the integrity and skills of our unparalleled team of economists and other experts backed by the resources and reliability of one of the world's largest economic consultancies. With its main office in New York City, NERA serves clients from more than 25 offices across North America, Europe, and Asia Pacific.

For more information about our services and capabilities in Financial Services Transfer Pricing, please visit www.nera.com/FSTP





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